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our merchant marine**

Place:

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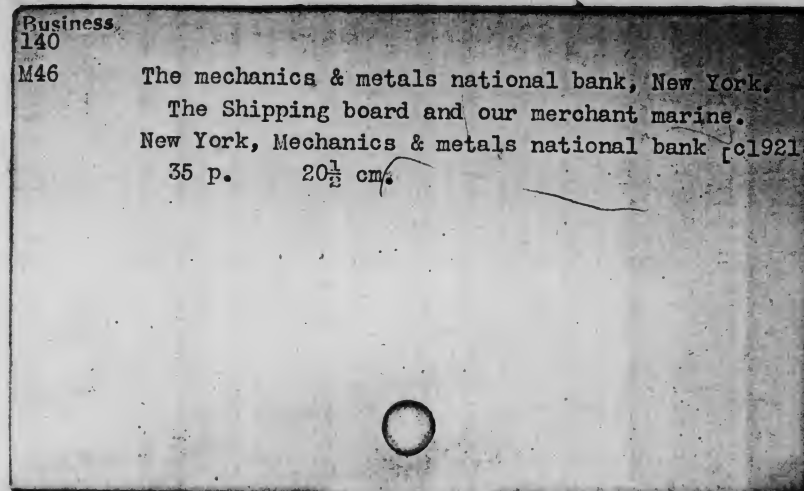
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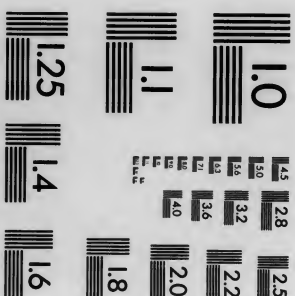
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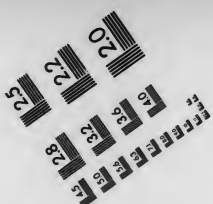
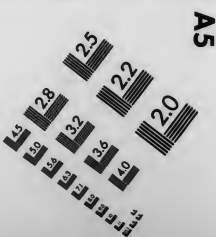
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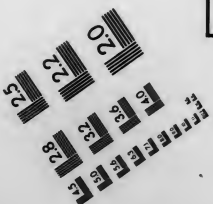
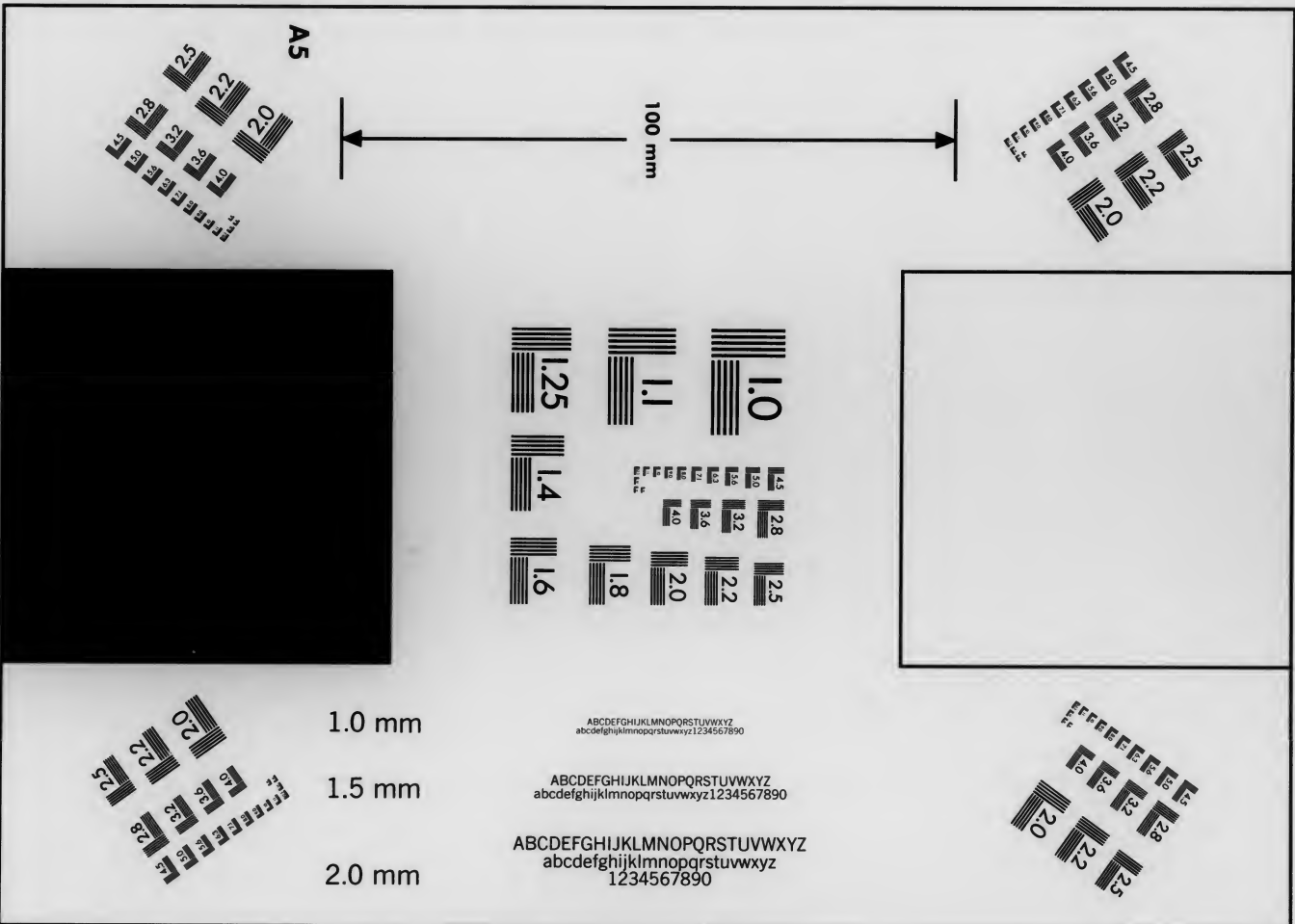
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SCHOOL OF BUSINESS

DEC 13 1921

The Shipping Board  
and Our  
Merchant Marine

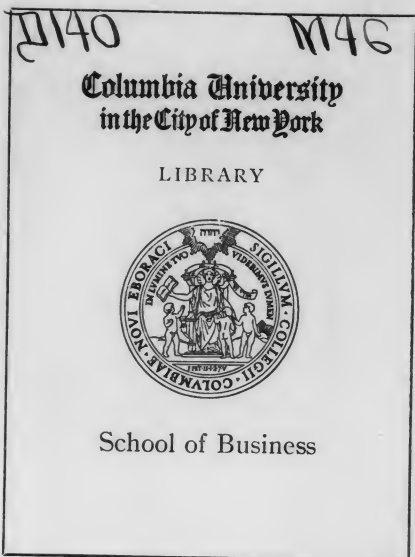


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ESTABLISHED 1810

THE MECHANICS & METALS  
NATIONAL BANK

of the City of New York



The Shipping Board  
and Our  
Merchant Marine



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THE MECHANICS & METALS  
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*Business*

## Foreword

THROUGH the power of its own huge fleet and the influence of its policies and decisions upon the development and operation of the entire American merchant marine, the Shipping Board constitutes an important factor in the economic situation of the United States. It bears upon the disposal of the surplus products of our industries, upon our international trade and political relations, and upon taxation and national income.

With the purpose in view, therefore, of making available to the customers and friends an analysis of this situation that may enable them to judge better the merits and importance of future developments, we present the following review of the functions and duties mandated to the Board and of the chief problems which now confront it.

THE MECHANICS & METALS  
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of the City of New York

December, 1921

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## The Shipping Board and Our Merchant Marine

UNTIL the middle of the last century our Atlantic States, dependent upon trade with older countries, and upon distant sources for many of their requirements, developed a race of mariners, built the finest ships, sent the American flag into every port of the world, carrying the bulk of our foreign commerce. Then came the development of our western territories and the increase of our industrial capacity. New and greater profits from the investment of money and energies here led our interests away from the sea. The Civil War, and the competition of other nations themselves facing the urgencies of overseas trade and colonization, contributed to the rapid reversal which occurred in our marine position.

Now the tide has turned again, accelerated by war but nevertheless inevitable. A surplus of products, international competition for world trade, have of necessity sent us back to the sea. But a merchant marine cannot exist of itself; it is no more than a tool of commerce, a means by which an end may be achieved. Its problems are in the last analysis the problems of commerce, and artificial aid without appreciation of these problems can give but an artificial stimulus. We will keep on the sea not through such aid but by the development of a broad national policy of encouragement to foreign enterprise of which the maintenance and operation of our fleet is but one important part.

Though the economic forces demanding maritime strength had been gathering momentum before the war, no real national shipping policy had begun to develop—except, perhaps, the deadening effect of restrictive labor legislation. With the early years of the war these forces

were emphasized, yet in our maintenance of strict neutrality we withheld any pronouncement of policy until the Shipping Act of 1916 in accordance with which the Shipping Board was first established.

A brief period of nominally peace-time regulation, prior to our declaration of war, was followed by a purely military development—a period of ships and more ships, built primarily to carry munitions and supplies and only incidentally to meet future commercial competition. After the Armistice, the first national reaction was still military—a determination never again to be without a merchant marine as a war auxiliary. Then came the renewed expression of our earnest resolve to have a fleet to carry our own goods—the Merchant Marine Act of 1920. This act strengthened and clarified the policies outlined in 1916 and took account of the problems presented by the huge Government-owned fleet which in the meanwhile had come into existence.

Thus on a foundation of peace-time legislation designed to encourage a normal and gradual development of the American merchant marine, there was reared the colossal shipbuilding and ship operating structure necessitated by the abnormal demands of our participation in the war.

From a regulatory body the United States Shipping Board expanded, parallel with the development of our entire war program, into an organization several hundred times greater in its responsibilities and scope than the greatest private shipping enterprises had attained after years of development. On the extent and rapidity of its achievement depended the outcome of the war. That the full measure of its accomplishment, expressed in completed ship tonnage, came after the cessation of hostilities, does not discredit the value of this accomplishment; the indications are, rather, that the promise of its entire program, the definite assurance of its increasing contribution to Allied munition transport, exercised a powerful moral effect, hastening the conclusion of the conflict.

There is to be no attempt made to review here in any detail that part of the war program which was delegated to the Shipping Board. That it constituted a colossal achievement cannot be fairly denied. As a war measure it used up money; likewise it used up men, both physically and politically. Whether the waste and inefficiency in its operation, bearing in mind that time was the essence of the contract, was proportionately greater or less than in other parts of the war program, need not be discussed. That chapter is finished.

But the liquidation of the shipping program is not finished; it could not have been completed in any measure of satisfaction within this time under any probable combination of circumstances. Yet in this question of liquidation lies the crux of the immediate Shipping Board problem. To what extent was liquidation accomplished before the advent to the Board of the present personnel? What are the ramifications of the problem which confront this Board and how is it meeting them? What effect will their decisions and the decisions of Congress have upon the future status of the American merchant marine?

For the purpose of setting up a somewhat comparable example, let us suppose that the war-time governmental administration of the railroads had been delegated to the Interstate Commerce Commission. Suppose, further, that this body had found it necessary as a war measure to insure the movement of troops and supplies, to construct a hundred thousand miles of new railroads paralleling existing lines. The Interstate Commerce Commission is a regulatory body. It has a record of achievement in this field. But with this activity it would have been compelled to undertake a vast administrative program embodying both construction and operation. It would, legitimately, have been subject to an unending fusillade of publicity and, less legitimately, to criticism for political ends. With the cessation of the war it would have had an operating organization which, with respect to its operation of

"requisitioned" roads, would have been readily liquidated, as was the actual Railroad Administration. But in addition it would have had on its hands the hundred thousand miles of new lines for which, under current business conditions, the existing and established roads could find neither capital nor immediate use. It would have a difficult problem of liquidation. And in the meanwhile its regulatory functions would have been lost sight of; the inevitable criticism of its war operations would have influenced public opinion unfavorably; the surplus railroad capacity would affect the whole railroad situation.

It is in much the same situation as the hypothetical case above, that the Shipping Board finds itself. Reduced to the simplest terms, the temporary war structure must be removed from the foundation of shipping regulation and assistance. Yet the world trade conditions are bound to make this a slow process. Granting the desirability of an adequate merchant marine for the years to come, the new Board must so conduct the work delegated to it and inherited by it as to win to this merchant marine the support of all those elements—farmers, traders, taxpayers, manufacturers, legislators—on whose cooperation depends its success.

What is the work delegated to the Board; what problems has it inherited? *First*, continuing regulatory powers over shipping and efforts toward the permanent upbuilding of our merchant fleet. *Second*, the liquidation of government owned tonnage. *Third*, the operation of the government fleet pending liquidation.

It will probably be a number of years before the skeins are untangled. That heritage of the war, the fleet and its operation and disposal, is seemingly mixed inextricably with the problem of the entire merchant marine. To try, on the one hand, to break off at once from government operation, regardless of consequences, would defeat the efforts of the other hand to assist and encourage private development. Probably no other war problem is still

so thoroughly with us, unsolved, as is the shipping situation. There has been no other problem of liquidation kept so completely in front of us for commendation or condemnation—nor one which can be so greatly benefited by restrained and sober consideration now of the underlying factors and possible methods of solution.

The basis of any consideration of the Shipping Board activity lies in the legislation which set up the Board and which directs the broader policies on which its operation is based. There are two principal legislative acts; first, the Shipping Act of 1916 enacted six months before our entry into the war; second, the American Merchant Marine Act, 1920, known as the Jones Bill, approved eighteen months after the Armistice. Between these two basic instruments came a number of minor enabling acts, largely in the nature of definitive appropriations covering the war-time activity of the Board. For the most part this war activity was conducted under delegation of authority granted to the President. For this reason and because of its strictly emergency character, this interim legislation set up no standards bearing upon current or future Board activity, and need not be considered here.

## Shipping Legislation

THE Shipping Act of 1916 has been characterized as the first effort of this country after nearly half a century of inactivity to devise a general and forward-looking shipping policy. Edward N. Hurley, in his book, "The New Merchant Marine," credits the late Bernard N. Baker with being the "father" of this new legislation, passed under the guidance of Senator Fletcher of Florida and Representative Alexander of Missouri, later Secretary of Commerce from December, 1919, to March, 1921. It is true that the progress of the World War in its affect on world shipping, had an important bearing upon the immediate need of some enactment that would preserve the integrity of the fleet under the American flag, and provide for any emergency that might develop. But essentially, and in so far as its guiding policies looked ahead toward a continuing development and encouragement of our merchant marine, the 1916 Shipping Act was peace-time legislation.

This Act has three somewhat distinct phases relating, first, to the construction, acquisition and charter of ship tonnage and the transfer of vessels to and from the American flag; second, to specific investigations into conditions bearing upon the merchant marine; and third, to the regulation of rates and practices of common carriers by water in foreign and interstate commerce. By it a Shipping Board of five members was established for the purpose, according to its preamble, "of encouraging, developing and creating a naval auxiliary and naval reserve and a merchant marine to meet the requirements of the commerce of the United States with its territories and possessions and with foreign countries."

Subject to greatly restricted limitations the Board was authorized to build, lease or charter ships; also to form a \$50,000,000 corporation, the life of which was limited to

five years from the end of the war, which could purchase, lease, charter, maintain and construct ships and, only if unable to sell or charter, could operate them. Definite restrictions were established on the transfer of vessels to foreign registry during war emergency and in normal times. Questions of transfer of tonnage engaged most of the attention of the Board before our declaration of war.

The Board was directed by the Shipping Act to investigate specifically these six subjects:

- Relative costs and conditions of construction and operation here and abroad.
- Rules under which ships could be constructed here and abroad with respect to classification and rating.
- Marine insurance.
- Navigation laws.
- Mortgage loans to encourage investments in ships.
- Discrimination by foreign governments.

Under this initial legislation and under supplementary legislative appropriations and presidential proclamations, the Shipping Board continued to function until the Merchant Marine Act of 1920 was made effective through the appointment of the present Board.

Bearing on the character and content of this new, current shipping legislation are two features of interest. First, there was no obvious intention in the original legislation to set up a system of government operation of shipping, except in so far as private enterprise could not be found to operate tonnage deemed necessary to merchant marine development. The extent of the government's participation in shipping—particularly in the acquisition of a huge fleet of its own—could hardly have been foreseen. If, in the liquidation of government operation of this fleet during the period since the Armistice, the old Board has been criticised as dilatory and as contriving to maintain government control, the measure of the criticism is a matter of personal opinion as to the expediency and possibility of immediate liquidation irrespective of conse-

quences. Certain it is that the new legislation, approved over a year ago, definitely reaffirms the policy of private ownership and operation.

Second, the previous Boards carried out, to such a degree as was feasible in the light of their concentration upon immediate war problems, the investigations which the original legislation had directed them to make, and were able to contribute to the new legislation recommendations considered valuable and far reaching regarding marine insurance, ship mortgages and other features of this new and comprehensive Shipping Act, and to make progress on the codifying of our navigation laws.

The Preamble and Section 1 of the Merchant Marine Act, 1920, states the necessity for an adequate merchant marine and outlines the policy of the United States for its development and encouragement in these words:

An Act To provide for the promotion and maintenance of the American merchant marine, to repeal certain emergency legislation, and provide for the disposition, regulation, and use of property acquired thereunder, and for other purposes.

*Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,* That it is necessary for the national defense and for the proper growth of its foreign and domestic commerce that the United States shall have a merchant marine of the best equipped and most suitable types of vessels sufficient to carry the greater portion of its commerce and serve as a naval or military auxiliary in time of war or national emergency, ultimately to be owned and operated privately by citizens of the United States; and it is hereby declared to be the policy of the United States to do whatever may be necessary to develop and encourage the maintenance of such a merchant marine, and, in so far as may not be inconsistent with the express provisions of this Act, the United States Shipping Board shall, in the disposition of vessels and shipping property as hereinafter provided, in the making of rules and regulations, and in the administration of the shipping laws, keep always in view this purpose and object as the primary end to be attained.

There have been laid down in this legislative enactment known as the Jones Bill provisions and regulations which, subject to such revisions as experience and necessity may dictate, constitute the charter under which the Shipping Board must proceed. The policy of private ownership expressed by a negation of government operation in the 1916 Act, becomes in this act a clearly defined and positive expression of policy. The policy to be pursued in the liquidation of the war enterprise is enunciated. And by a number of specific measures, assistance to American shipping and shipbuilding is facilitated.

The sponsor for this legislation was Senator Wesley L. Jones of Seattle, Republican member of the Senate from Washington since 1909. "An adequate merchant marine," Senator Jones has said, "built in American shipyards by American labor, owned by American capital, operated and managed by American seamen, carrying American commerce to all parts of the world, flying the American flag, has been my dream for many years, and it is my purpose to do whatever I can to attain this great end."

The provisions of the Jones Bill may be divided, for purposes of a brief summary, into four classifications: (1) Specific enactments governing the composition of the Board and assistance to shipping; (2) regulatory provisions; (3) instructions covering liquidation of government holdings; and (4) investigations directed to be made.

(1) The Act repeals war emergency legislation and three sections of the 1916 Act and amends other sections of it; it sets up a board of seven (instead of five) commissioners, territorially and politically representative, with salaries of \$12,000 (previously \$7,500), to direct and enforce its provisions and to exercise powers previously granted to, and delegated by, the President. The commissioners must not acquire financial interest in a common carrier subject to the Act, but, contrary to the earlier provision, a man with shipping interests is not debarred from appointment, but may not take part in discussions relative to them.

Section 34 is one of the most far-reaching provisions and, incidentally, subject to the liveliest discussions in its bearing on the tariff and on foreign relationships. It directs the President to terminate those provisions of treaties with other countries which restrict the right of the United States to impose discriminating customs duties favoring imports in United States vessels and discriminating tonnage dues. Neither President Wilson nor, as yet, President Harding, have complied with this direction and further congressional action is possible that will define the application and extent, if any, of this proposed discrimination.

A provision of immediate benefit to the shipping industry and one which has, to a certain extent, been taken advantage of, relieves profits of ship operation from federal war and excess profits taxes if an amount equal to these taxes is invested in new ship construction in United States shipyards up to one-third of the cost of the new construction; similarly it exempts from these taxes profits from ship sales if the entire profits are invested in new ship construction. These exemptions apply for a period of ten years beginning with 1921.

The Board may create separate insurance funds to insure its own interests in vessels or plants; and a revolving construction loan fund out of revenues during five years not exceeding \$25,000,000 to aid in the construction of ship tonnage in private yards, up to two-thirds of the cost of each vessel.

The Board is directed to take over, maintain and develop dock and terminal properties acquired by the President, these not to be sold unless authorized by law. The American Bureau of Shipping is officially recognized as the Classification Agency for Government-owned vessels, thus strengthening the position of this organization.

Considered of fundamental importance in its bearing on the whole shipping problem, inasmuch as the liquidation of government tonnage is dependent upon the investment of private funds, is Section 30 of the Merchant Marine Act,

1920, cited for separate reference as the Ship Mortgage Act, 1920. This section, specifically and in great detail, changes the existing law of ship mortgages to allow the granting of a preferred mortgage to take precedence over all maritime liens. By thus improving the security afforded for ship mortgage, it is expected that a greater amount of money will, other things equal, be attracted to investment in American shipping.

(2) Of the regulatory provisions of the Jones Bill, the application of Section 28 has been the first to receive active consideration at the hands of the new Board by reason of its possible immediate benefit to American ship owners. This section prohibits the application of lowered joint or proportional rates by carriers subject to the Interstate Commerce Act in connection with foreign transportation except in conjunction with vessels documented under United States laws. The Interstate Commerce Commission may, however, suspend the application of this section where, in the opinion of the Shipping Board, adequate facilities are not provided by American vessels. This discrimination in favor of our shipping is another example of the advantages sought to be gained for the American merchant marine by this shipping legislation, without a resort to measures of direct subsidy both championed and opposed so bitterly in earlier congressional consideration.

Other phases of regulation are outlined. For example: The Board is directed to make rules affecting shipping in foreign trade, to adjust unfavorable conditions, and to cooperate with other Government Departments in this respect. Regulations of the Shipping Act, 1916, governing deferred rebates, "fighting ships," retaliations and unfair discrimination are further strengthened by an amendment regarding violations by aliens and the certification of such acts to the Secretary of Commerce. Coastwise shipping laws are extended to Island possessions after February 1, 1922, thereby restricting trade between the United States

and these possessions to American vessels, provided adequate American service is established and maintained. Mails are to be carried, so far as practicable, on vessels American built and documented.

(3) The instructions governing the liquidation by the Board of Government-owned shipping authorize and direct the sale of all vessels. Selling prices are to be judged on the basis of a business disposing of property which it is not forced to sell. Completion of payment cannot be deferred beyond fifteen years. Vessels considered unnecessary to the American Merchant Marine may be sold to aliens if no market for them exists here; in this case payments may be deferred for ten years. The Emergency Fleet Corporation is authorized to continue in existence until all vessels are sold. Previous legislation limited its life to five years from the cessation of the war.

Proceeds from the disposal of this property, except for the special funds authorized, and for operating capital, are now directed to be turned in to the Treasury.

(4) The Shipping Board is directed specifically to investigate the establishment of new or additional steamship lines for the development of foreign and coastwise trade and adequate postal service. It is authorized to sell or charter vessels for these lines or, if necessary, to operate and maintain them until they can be sold or are found not self-sustaining. Government service paralleling private American service shall not, however, charge lower rates.

The Board is also directed to cooperate with the Secretary of War in promoting and developing ports and their facilities, and to investigate terminal equipment.

## The Immediate Problems of the Shipping Board

THIS summary of the basic legislation under which the Shipping Board functions has for its purpose a clarifying of the relationship between the broad, continuing functions of the Board, and the very important, immediate problems of war liquidation and ship operation.

With these immediate problems the public is more or less familiar, certainly to the extent that the glaring nature of some of them have furnished material for columns upon end of newspaper report and comment. Without deprecating in any way the seriousness of the apparent demoralization of the shipping situation and the seeming hiatus which occurred in the formulation and execution of Shipping Board policies previous to the appointment of the present Board, it is probable that a clearer understanding of them is to be gained by setting up these problems in proper perspective.

Two points have been suggested in current editorial comment that may be worth noting. The first is that, in the main, the new Board is but energizing policies broadly outlined more than a year ago and on which a certain measure of progress had already been made. In the second point, an allowance or discounting is made for possible reasons behind the widely heralded characterization of the shipping situation as the "greatest commercial wreck in the history of the world."

Just as the entire scope of the Shipping Board resolves itself into two chief factors—(1) continuing peace-time regulation and assistance, and (2) liquidation of the war program—so may this liquidation be considered from two related but nevertheless distinct angles. One is external to the Board—the dislocation of world commerce; the

other internal—the problems of personnel, management and policies. For the difficulties and necessary delays to liquidation arising from the tremendous surplus of ship capacity throughout the world, both an actual excess of tonnage and an actual deficit in volume of trade compared with any scale that might be called normal, there seems to be no remedy that any body of men could devise. In time, the condition will adjust itself; unprofitable tonnage, ships that were worked to death during the war, will be scrapped. Fleets will be brought to a better balance. International movement of commodities will set its own new normal. In the meanwhile the United States must accept the fact that it has on its hands the greatest single fleet ever constructed, at present at the low ebb of its usefulness; a fleet which, irrespective of any reasonable price at which it is offered, can only slowly be liquidated and stay liquidated.

For the internal problems of personnel, management and policies there is daily evidence that remedies are being applied. Not all of them are new with the new Board; in some respects, at least, efforts were being made to clear away part of the “wreckage” under the direction of the Board which with but two members carried over until the present incumbents were appointed. It is understandable that what amounted to an interim organization would hesitate to take any broad action which might conflict with the more extensive and continuing decisions of the new and larger Board.

But the energizing effect of a permanent and responsible body supported, as it seems to be, by the hearty cooperation of the President, gives assurance to shipping interests and the public in general that decisions will be made. For of the whole mass of criticism and invective that has been hurled at the government for its handling of the shipping situation, the bulk of it simmers down to one thing—indecision.

Drawing, now, a line of demarcation between continuing regulations and the problems of liquidation, the immediate considerations falling within this latter group include the following:

- (1) Disposal of Government-owned vessels by sale or charter, enabling the withdrawal of the Government from ship operating.
- (2) Operation of fleet pending disposal.
- (3) Disposal of other surplus property.
- (4) Reorganization of management and personnel.
- (5) Adjustment of claims, litigation, contracts.
- (6) Budgeting and financing of operations on the basis of the greatest attainable economy.
- (7) Cooperation with private shipping interests.

Nor does this include the most important of all, the yardstick by which in the end the accomplishments of the Board will be measured—the reestablishing of public confidence and approval.

Progress in the solution of these problems is a matter of almost day-to-day report. All indications seem to mark as the outstanding accomplishment so far, the departure from bureaucratic practice in the revamping of the personnel of the operating activities of the Shipping Board and the appointment of experienced shipping men at commensurate salaries. This reorganization follows the expressed belief of the new Shipping Board Chairman that “to get the Shipping Board operation on an efficient basis is the quickest and shortest step to creating a situation whereby private people can buy these boats and get the Government out of Government ownership.” What has been done along these lines is best described by sketching briefly the present composition of the Board and of the executive organization subordinate to it.

During the better part of three months following his inauguration, President Harding had before him the pressing problem of the appointment of a new Shipping Board to consist, under the Jones Bill, of seven members. Legislation now permitted the selection of men having shipping interests or affiliations, and an earnest endeavor

was made to secure the services, for the position of Chairman, of men of the type of James A. Farrell of the United States Steel Corporation and W. C. Teagle of the Standard Oil Company of New Jersey, men familiar with the problems of world commerce and shipping and of proven executive ability. Such men had problems of reconstruction of their own which demanded their attention; furthermore, the position was considered in many respects not an enviable one, a position bound to expose them to criticism, unjustified probably, certainly severe.

Forced to leave this particular field of men familiar with shipping problems, the President sought out and obtained, as the Chairman, Albert D. Lasker, of Chicago, a man whose successful experience in problems of reorganization could be given full play in what is probably the greatest problem of its kind ever presented for solution. Mr. Lasker was admittedly unfamiliar with ships and shipping, but he early gained the confidence of the marine operators by proceeding to enlist for his operating departments the services of experienced ship operators.

Following is a list of the members of the United States Shipping Board, nominated on June 8, 1921, and confirmed the following day. The legislation directs that this membership shall be representative of the different sections of the country and that not more than four members shall be of the same political party.

Albert D. Lasker, Chairman (Illinois); Republican; representing Great Lakes district; term of six years. Secretary-Treasurer and Director of Lord and Thomas, a Chicago advertising agency, to which he had come from newspaper work in Galveston more than twenty years ago; interested in a number of enterprises which he has reorganized and advertised.

T. V. O'Connor, Vice-Chairman (New York); Republican; representing Great Lakes; term of five years. President of International Longshoremen's Association for twelve years; prominent in labor circles; appointed in 1921 a member of the New York State Industrial Commission.

George E. Chamberlain, Commissioner (Oregon); Democrat; representing Pacific Coast; term of four years. Former United States Senator from Oregon.

Edward C. Plummer, Commissioner (Maine); Republican; representing Atlantic Coast; term of three years. Editor and Admiralty lawyer; formerly Secretary of the Atlantic Carriers Association, representing the interests of American sailing vessel owners.

Frederick I. Thompson, Commissioner (Alabama); Democrat; representing Gulf States; term of two years. Newspaper publisher; member of Shipping Board from December, 1920 to March, 1921.

William S. Benson, Commissioner (Georgia); Democrat; representing Atlantic Coast; term of one year. Rear Admiral U. S. N. (retired). Appointed the fourth Chairman of the Shipping Board March 15, 1920, to fill the unexpired term of Chairman Payne. Chairman Benson and John A. Donald constituted the sole membership of the Board from June, 1920, until the appointment of the new Board. Standing almost alone to keep the "wreckage" together, Admiral Benson has been credited with achieving a remarkable record in view of the difficulties confronting him.

Meyer Lissner, Commissioner (California); Republican; representing the Pacific Coast; term of one year. Lawyer, interested in public service matters; Chairman of the first Board of Public Utilities in Los Angeles.

This is the composition of the Board created under the Merchant Marine Act of 1920 to carry out the provisions of that Act—the permanent function of regulation and the immediate function of ship operation and liquidation.

A quotation from the testimony of Chairman Lasker before the subcommittee of the House Committee on Appropriations on July 27, 1921, shows the policy of the Board, which has been carried out, with respect to a segregation of these functions to permit efficient operation:

"It (the Shipping Board) has been an authority over all of the boats . . . and it has had to run a part of the competing boats . . . That in itself would make impossible the successful running of the fleet by the Government.

. . . The law mandates us to do so many detail things that we have not sufficient time for the larger things. Now we are putting the operation of the boats under the Emergency Fleet Corporation. . . . By separating the operation of the boats and placing it in an independent corporation, when the Shipping Board meets it meets for the purposes for which it was primarily brought into being."

The duties of the Shipping Board have now been divided among the Commissioners who will act as heads of bureaus as outlined below. Chairman Lasker will be a member ex-officio of each bureau and will handle all matters of finance.

Commissioners Frederick I. Thompson and Edward C. Plummer will head the Bureau of Traffic. They will handle all traffic matters and will determine the necessary trade routes which should be developed. They will scrutinize all conferences and agreements in the foreign and domestic trades and will investigate all complaints of discrimination in rates or unfair prices.

Commissioner T. V. O'Connor will have charge of the Bureau of Operations. He will study the relative cost of operation of American and foreign ships, particularly with regard to labor costs. His work will also cover industrial relations with regard to marine and dock labor, and in compliance with section 8 of the Jones Bill he will make studies of port, pier and terminal facilities.

The Bureau of Construction will be under Commissioner William S. Benson. His duties will be to study the relative cost of shipbuilding at home and abroad, particularly the cost of building the most efficient types. He will pass upon transfers of American vessels to foreign ownership or registry, and will administer the construction loan fund which has been authorized.

Commissioner George E. Chamberlain will have charge of the Bureau of Law. He will scrutinize international, foreign and domestic shipping laws affecting shipping and will advise the Board of any instances wherein the laws are unjustly discriminatory; he will conduct such hearings as the Board may hold and have general supervision of all litigation.

Commissioner Lissner will head the Bureau of Research. He will conduct studies and gather data pertaining to various activities in which the United States Shipping Board would be affected or interested, and will have supervision over the division of field information. In addition his work will include the supervision of marine insurance matters for the Board and the investigation of this entire subject.

Section 35 of the Jones Bill provides that power and authority vested in the Board, except as otherwise specifically provided, may be exercised directly by the Board or by it through the United States Shipping Board Emergency Fleet Corporation. Under this authority, and with the approval of President Harding, the Shipping Board announced a complete separation of the Fleet Corporation from the Board effective October 1, 1921. This separation was made complete by the resignation of the members of the Board as trustees and officers of the Corporation and the election of Joseph W. Powell, J. B. Smull, W. J. Love, A. J. Frey, Henry S. Kimball, Elmer Schlesinger and E. P. Farley as the new trustees. Mr. Powell was chosen President and General Manager.

The operation of the properties of the Board, and the liquidation of the physical assets other than ships, have been turned over to the Fleet Corporation, the Shipping Board retaining to itself the power to veto cancelling of established lines and the allocation of passenger vessels.

In matters of physical operation, therefore, those having business with the Emergency Fleet Corporation will have to deal through the new board of trustees and the Corporation officers, that is, with men thoroughly familiar with shipping practice and problems and possessed of the necessary authority to make prompt and unhampered decisions. The Shipping Board itself will thus be able to concentrate on the subject of gradual disposal of the fleet, and on the matters of jurisdiction over the activities of the entire American merchant marine.

## Emergency Fleet Corporation

WITH the official segregation of the ship operating management from the other functions of the Board, it should now be possible for the public to gain a clearer conception of the work of each of these two bodies—the Fleet Corporation and the Board itself—and a better understanding of progress gained and difficulties encountered.

Irrespective of world trade conditions, of the financial embarrassment of many ship operators, and of the present vast surplus of tonnage, the success of fleet operations depends immeasurably upon the personal equation of those entrusted with their direction. It is significant, therefore, that the appointment of the new Fleet officials has met with an approval which promises that sympathetic cooperation so necessary to an untangling of the existing situation. Any disappointment that may have been felt over the lack of experienced shipping men on the Board itself, was dissipated by the selection for the Fleet of men of the widest and most valuable accomplishment in marine affairs. Further, the indications are that they will continue to be given free rein and the responsibility resulting therefrom.

Heading the personnel of the Fleet Corporation are the seven men who, as trustees, are also its chief executive officers. Of these, Messrs. Smull, Love and Frey, originally appointed as vice-presidents, have been designated by Chairman Lasker as the "key men" of ship operation. Their previous experience and standing is outlined briefly as follows:

Joseph W. Powell, President and General Manager of the Emergency Fleet Corporation, serving the Government without salary, was formerly Vice-President of the Bethlehem Shipbuilding Corporation, Ltd. He is devoting his attention to financing, accounting and sales and to the general problems of organization.

J. Barstow Smull, Vice-President, at a salary of \$35,000, came to the Corporation from the Vice-Presidency of J. H. Winchester & Company, Inc., mentioned as one of the largest, if not the largest of American ship brokerage companies. Mr. Smull was born in New York in 1874 and entered the shipping business in 1894, joining his present firm in 1907. He has been Vice-President of the New York Produce Exchange. With a wide experience in all branches of shipping, he is recognized by shipping interests as a foremost expert in ship operation.

William J. Love, born in Baltimore in 1873, was, at the time of his appointment, Assistant Manager in the United States for Furness, Withy & Company, Ltd., one of the largest shipping firms of Great Britain. He had previously been associated with the Atlantic Transport Company and later was manager of the American flag steamers of the International Mercantile Marine Company. He is especially familiar with competitive trade conditions throughout the world and likewise has a wide acquaintanceship with merchants and exporters. As a Vice-President of the Fleet Corporation, Mr. Love receives \$35,000 a year.

Mr. Smull and Mr. Love were two of the three men who were members of the charter committee of the United States Government during the war, having full charge of all the allocations of boats used for merchant marine purposes under the American flag—a department which, according to comment, challenged the interest and admiration of the shipping world. During the war period that committee passed on upwards of 20,000 charter parties.

A. J. Frey, a practical ship operator of twenty years' experience, is the third of the original three "key" men selected by Chairman Lasker, receiving \$25,000 as Vice-President. For sixteen years previous to 1918 he was associated with the Pacific Mail Steamship Company. During the war Mr. Frey was a member of the Pacific Coast organization of the Shipping Board and in charge of the Ship Construction Division of the Southern Pacific Division. More recently he was General Manager of the Los Angeles Steamship Company.

As financial officer of the Fleet Corporation Mr. Henry S. Kimball, of New York City, will have direct

supervision of the treasurer's, comptroller's and auditor's office and of all collections of the Shipping Board establishment. Mr. Kimball's associations have been with the Boston Edison Company, American Zinc Lead and Smelting Company, Aetna Explosives Company, Remington Arms, Union Metallic Cartridge Company and Gaston, Williams and Wigmore.

Elmer Schlesinger, General Counsel for the Board, and E. P. Farley, Sales Manager, complete the list of the seven trustees of the Emergency Fleet Corporation. The Treasurer is T. S. Clear.

As the duties of these executives, and of the new district managers, have become delineated, progress in the entire organization of the vast personnel of this enterprise has gone forward, with the assignment of other able executives to the staff and with a gradual and effective systematizing of inter-relationship and functions.

The extent to which this organization, engaged in the executive and clerical direction of the government ships and shipping properties, had developed and had been maintained up to the beginning of the present Board administration, is shown by a statement of the number of employees in the Shipping Board and its subsidiary company. As of July 15, 1921, this organization in the United States numbered 7,603 employees whose annual salaries aggregated \$14,716,662. In the foreign offices there were 677 as of June 30, representing a total yearly payroll, expressed in dollars, of approximately \$1,200,000.

The readjustment necessary to a material reduction in the numbers of these employees was one of the first matters undertaken by the new regime. In particular, the composition of the foreign offices, notably that in London, had come in for considerable criticism in the percentage of non-Americans on these staffs—comments characterized as largely in the nature of “flag-waving.” Whether or not they carried weight is immaterial; at any event it was considered that there would be less duplication of effort if most of the work of these foreign offices were consolidated

with the offices in this country, and this is being put into effect. The reduction in staff here and abroad has totaled about 4,000 members, cutting the organization to less than half of what it was at the middle of the year, and representing a saving of possibly \$7,500,000 yearly.

Nearly every consideration of the situation confronting the Shipping Board since the Armistice has begun with a statement of the three-and-a-half billion dollar expenditure for a fleet of thirteen and a half million deadweight tons. Usually, also, condemning reference is made to the six hundred wooden ships, representing a million nine hundred thousand tons of this total.

That an analysis of the quantity and make-up of the government-owned fleet has, in this case, been withheld until a background of Shipping Board legislation, activity and personnel has been broadly sketched, does not imply any lack of appreciation of the fact that in this volume of tonnage lies the whole problem of physical operation and of liquidation of capital assets and war organization. The fact remains that the ships are in existence; that they represent but about two-thirds of the entire ship program of the war in progress or definitely planned at the time hostilities ceased; and that this program and its costs can be compared only with the value of the successful outcome of the war, as in the case of any other war activity.

#### SUMMARY OF TOTAL E. F. C. SHIP CONSTRUCTION

CLASS	NUMBER OF SHIPS	DEADWEIGHT TONNAGE
Requisitioned Steel . . . . .	384	2,687,266
Contract Steel . . . . .	1,309	8,927,695*
Contract Wood . . . . .	589	1,885,250
Contract Composite and Concrete . . . . .	30	136,500
Total . . . . .	2,312	13,636,711

\*Includes 19 vessels of 217,700 tons to be delivered, with one exception, during 1921.

The wooden, composite and concrete vessels may be considered as having but a purely nominal salvage value and may be eliminated from further consideration.

An analysis of the types of the steel vessels, both requisitioned on the ways and built under contract, shows the following totals:

#### ANALYSIS OF E. F. C. STEEL SHIP CONSTRUCTION

STEEL VESSELS TYPE	NUMBER OF SHIPS	DEADWEIGHT TONNAGE
Cargo . . . . .	1,420	9,509,234
Tanker . . . . .	138	1,363,030
Passenger and Cargo . . . . .	25	308,972
Transport . . . . .	22	179,775
Refrigerator . . . . .	19	161,400
Collier . . . . .	9	70,350
Barges . . . . .	6	22,200
Tugs . . . . .	54	(1)
Total . . . . .	1,693 (2)	11,614,961 (2)

(1) No tonnage given for tugs.

(2) These figures include the 384 vessels of 2,687,266 deadweight tons requisitioned on the ways, of which 78 of 728,817 tons has been reconveyed to former owners by June 30, 1921, and are included in the figures of sales given below.

In addition to this new construction, the seized German vessels, aggregating over 600,000 tons, brought to the American fleet a number of large passenger ships, many of which have already been reconditioned and placed in service in the development of new trade routes.

The problem now exists of utilizing this fleet to best advantage in the upbuilding of a permanent marine, transferring it to private ownership as rapidly as conditions permit, and writing off its excess cost as a legitimate war expenditure. As of June 30, 1921, a total of 402 vessels—steel, wooden, requisitioned and seized—of 1,900,121 tons had been sold or reconveyed, on the basis of a sales value of \$260,000,000, of which \$131,000,000 had actually been paid.

Whether these ships will in all cases "stay sold" depends, it would appear, upon the action of the Board in respect to the mortgages or notes which it holds covering the unpaid balance. The plight of the "pioneer purchasers" of Shipping Board tonnage has aroused considerable discussion in Congress and in the press. Briefly stated, the situation is that this tonnage was for the most part purchased during the period of shipping prosperity that followed the Armistice. On the basis of indicated earning capacity, prices of about \$200 a ton were agreed upon. With the subsequent collapse of trade and shipping activity, the purchasers of this tonnage find themselves, in many cases, unable to continue the deferred payments then arranged for, and it is contended that some of them are facing bankruptcy. Foreclosure by the Board would not advance the progress of fleet liquidation; on the other hand it appears that the Board cannot, unless specifically authorized by Congress, remit or cancel any part of the original purchase price.

Feeling that any arbitrary or "upshot" price could not now be applied generally—and probably realizing also that in the present state of the market it would be next to impossible to arrive at any equitable sale value—the Board is conducting a detailed survey of every ship to determine its condition and, at least, relatively, its value. It is pointed out with reference to the Government fleet of steel vessels, that they are very largely oil-burning—an important consideration in economy of operation—and generally efficient in character of design and construction, though in many cases somewhat over-engined. This does not, however, overbalance the fact that their aggregate volume obviously must hang over the market as an unstabilizing influence for some years, at least in so far as vessels of the general cargo type are concerned.

It is contended by some that during the "boom" the Board should have set a sale price of \$150 or less a ton, instead of \$200, and thus have encouraged the purchase of

greater numbers of ships. But in answer to this, others feel that had this been done, the number of threatened failures by now would have been even greater, and that no one but the Government itself could have carried any real volume of this new tonnage during this world-wide curtailment of the international movement of commodities. Its direct reaction came upon world shipping, reflected in operating deficits and in the withdrawal of ship tonnage, which the Shipping Board has faced in common with operators the world over.

A measurable improvement in trade conditions particularly, as far as this country is concerned, in imports, would seem to be indicated. But irrespective of this, irrespective of the amount written off of the cost of the fleet as war expense, it will take time for private enterprise to absorb this immense volume of tonnage.

The figures of world shipping tonnage issued by Lloyds as of June 30, 1921, are interesting in this connection. Taking the steel ocean-going steamships of the principal maritime countries, there has been an increase from 42,514,000 gross tons in 1914 to 54,217,000 tons this year. If world trade demand and the parallel growth of ship tonnage had continued at its previous rate of increase, the present figure would have been about normal. But with world commerce subjected to the violent upheaval which has occurred, there is now a disparity about equivalent to the amount of the increased ship capacity. And with ships, as with other commodities fluid in their movement between sources of supply and demand, a small surplus, say 3 per cent, is enough to cause a break in the market.

Two points are, however, frequently overlooked in considering these figures of world tonnage. In the first place, approximately one quarter of this increase consists of oil tank ships. In 1914 vessels of this type numbered 385 with a gross tonnage of 1,479,000; for 1921 the corresponding figures are 861 of 4,419,000 tons. About a half of this tanker tonnage is American. Second, the present figures

include a great number of vessels variously estimated by shipping authorities at from 3,000,000 to 5,000,000 tons which must be scrapped in the course of the next few years. Ship tonnage in existence during the war was driven hard, there was opportunity only for the most perfunctory maintenance and replacement, and some of it has become obsolete, with the result that a considerable part of this tonnage cannot continue to survive in competition with the newer and more efficient ships. In so far, therefore, as the future is concerned, there should not be any dangerous excess of tonnage under a return to a normal, even though a new normal, of world trade.

Another feature that has an important bearing upon relative economy of operation is the increased use of oil fuel—accounting in part for the greater number of tankers. In 1914 there were 364 oil-burning vessels of 1,310,000 gross tons. This fleet has now increased to 2,536 of 12,797,000 tons, of which about 8,000,000 tons are under the American flag, or roughly two-thirds of the total American fleet of 13,335,000 gross tons.

On January 1, 1921, the steel vessels of the Shipping Board fleet numbered 1,331, according to a statement by Chairman Lasker, of which 1,142 were in operation. On July 23, 1921 there were 1,445 vessels in this fleet of which only 632 were being operated, 66 were under repair and 747 were tied up. This decrease is indicated in terms of tonnage by an official tabulation showing steel ships in service by months for the year ending June, 1921. During the last six months of 1920 the figures vary between 7,600,000 and 8,250,000 deadweight tons, averaging 1,161 vessels and 8,000,000 tons. With 1921, this tonnage began to be withdrawn from service, as was a part of the tonnage of private fleets, until in June, 1921, the Shipping Board Fleet in service numbered only 691 of 5,259,000 tons. By November, 1921, the number of these vessels in service had been reduced to about 400 of approximately 3,000,000 deadweight tons, a decrease for the year of over 60 per cent.

In the face of the slackened demand for ships indicated by these figures, it can be appreciated that the problem of the profitable operation of this huge fleet is itself a difficult one, let alone the question of its liquidation.

The conflicting factors in the ship operating situation are these, that from the viewpoint of immediate national economy, the fleet must be run at the least possible loss from current operations—for the time being a profit can hardly be anticipated; and at the same time the conditions imposed must be such as to assist in the upbuilding of a capable group of private operators who can be encouraged and enabled gradually to absorb this fleet from the Government in accordance with the policy of government withdrawal from ship operation and ownership. Withal, the needs of the American exporters and importers must be considered in the development of adequate shipping service to all parts of the world.

While awaiting a sale market for these ships there are three methods under which tonnage can be chartered, that in greater or less degree relieve the Government of the details and the financial burden of direct operations.

The first of these is the time charter or bare boat basis, under which the Government would be released from all operating costs, the charterer paying so much per ton per month for the hire of the vessel and assuming all operating expenses. This is considered in many ways the most satisfactory method, but under the present conditions almost as difficult to arrange as are sales. While if the time charter rates are set low enough to attract charterers now, there would not be the incentive to purchase.

Under the second method, and the one toward which the greatest efforts are being made to develop a satisfactory plan, the ship operating company and the Fleet Corporation would work on a partnership basis. Each would have something at stake, the charterer standing his share of any losses and participating proportionately in any profits.

To the extent that the Government is unable to charter its vessels under either the time charter or the partnership plan, it must have recourse to the system of allocation or agency agreement for any other ships which it desires to operate in conjunction with private companies. Under allocation, the Emergency Fleet Corporation pays all of the expenses of operation and the operator receives a fixed percentage of the gross receipts, usually from 2½ per cent to 5 per cent depending upon the nature of the commodity movement. This is the basis of the agreement widely known as the MO-4 contract—that is, the fourth plan that was drawn up with the managing operators. In the hearings before the House Committee already referred to, Chairman Lasker said: "May be if I had been on the Board at that time (when this system was inaugurated) or if any of you gentlemen had been on the Board . . . you would have voted for that contract in the light of things as they were then. . . . Without comment, because I am not expert enough on whether . . . it should have been voted for or not, it has turned out to have been as vicious and incompetent a basis of doing business as the human mind could devise . . ." It is contended that under allocation, the operator has no incentive to economize on expenses or to take any pride in the boats themselves; rather, that the incentive is to incur expenses disproportionate to the revenue from added business for the sake of the assured percentage on this business. And further that in addition to being the worst contract for the Government, it is by no means the most favorable to the operator in that it constitutes an unstable condition, unfavorable to the proper development of the merchant marine. Nevertheless, with respect particularly to passenger liners engaged in developing new routes for American ships, there has appeared to be no other method that will keep these vessels in operation under present conditions.

Congressional appropriation committees have never failed since the inception of the Shipping Board to

exercise their full prerogative in the matter of investigation and cross-examination of the affairs of the Board, and it is probable that the operation of no other department has been so completely yet so unsympathetically scrutinized.

On July 27, 1921, there came up for consideration under the Urgent Deficiency Appropriation Bill, 1922, the request for an added appropriation of \$100,000,000 for the six months ending December, 1921, accompanied by the recommendation that all receipts from liquidation of capital assets during the year be carried into the Treasury and that direct appropriations be made for the expense of the Board. Testimony taken at that time disclosed a confusion in the accounting practices of the Shipping Board that not only made difficult a clear-cut segregation and analysis of previous operating experience but, together with the general uncertainty of ship operations, caused Mr. Lasker to disclaim repeatedly responsibility for the accuracy of any budgeting of the requirements for the coming year. This budgeting was, however, as follows:

ESTIMATED CASH REQUIREMENTS FOR THE FISCAL YEAR  
ENDING JUNE 30, 1922

Current Operations:

Losses due to operation	
of ships . . . . .	\$100,000,000
Reconditioning of vessels	16,000,000
Insurance claims and	
losses on ships . . . . .	10,800,000
Administration overhead	15,000,000

Total estimated cash requirements on	
current operations . . . . .	\$141,800,000
Construction expenditures	\$30,610,000
Less appropriation ap-	
proved June 16, 1921 . . . . .	25,000,000
Net requirement for construction . . . . .	5,610,000
Total . . . . .	\$147,410,000

In addition to the above, the estimated cash requirements for claims total \$58,291,500, comprising largely cancellation claims on ship construction. The sum of these two items, \$205,700,000, was the basis of the request for half the amount, or roughly \$100,000,000 for the half year in addition to the \$25,000,000 already appropriated.

A note is appended to this estimate explaining that the sundry civil bill approved March 4, 1921, allows the Board to retain up to \$55,000,000 derived from the sale of capital assets to be applied to operating and construction expenses during the year ending June 30, 1922; but stating that no deduction of this amount is made in the estimate because of the announced intention of the Board to ask for repeal of this authority and the provision of all necessary funds by direct appropriation.

The appropriation finally granted, in addition to the earlier \$25,000,000, amounted to \$48,500,000 and it was generally expected that the Board would later in the current session request additional funds. However, on September 27th it was announced that the Board had informed Congress that it does not expect to ask for any new appropriations because of reductions that are being made in the operating deficit.

Just what provision this will make for the payment of claims is not clear. Mr. Schlesinger, General Counsel, estimated that their face value was about \$300,000,000 to \$350,000,000 involving some 3,500 separate cases. The work of handling these claims has necessitated the formation of a larger and reorganized legal staff, and no approximation has yet been reached of the aggregate amount of the settlements that will finally be made.

To pass on these claims, a Claims Commission has been appointed by the Shipping Board, but separate from it, consisting of five men: Judge Walter D. Meals, of Cleveland, Chairman; and Homer Ferguson, President of the Newport News Drydock and Shipbuilding Company; T. W. Wood, formerly President Maryland Steel Com-

pany; Commander Richard M. Watt, formerly Chief Construction Officer of the Navy, and Arthur W. Teele, Vice-President of the Public Accountant Association of the United States. The Board and the claimant will both appear before this Commission by counsel and the Board will not therefore be in the position of being both arbitrator and defendant.

On the other hand, the Board had, it was estimated as of June 30, 1921, about \$500,000,000 of so-called quick assets of which \$287,000,000 are in the shape of notes and accounts receivable, about half from vessel purchasers. These together with the capital assets of the Board are now being subjected to careful inventory and review, prior to efforts toward collection and liquidation. Incidentally, no assets may now be disposed of without the permission of the Government Budget Officer.

In connection with the subject of appropriations, the following figures are extracted from a "statement of moneys authorized, appropriated for, and otherwise provided for from the inception of the Board to June 30, 1921."

Appropriated for:

United States Shipping Board (permanent fund, salaries, expenses) . . . . .	\$52,683,753
U. S. S. B. Emergency Fleet Corporation (Emergency Shipping fund) . . . . .	3,240,053,000
Otherwise provided for . . . . .	29,512,426

Total appropriated or provided . . \$3,322,249,179

(This does not include \$20,459,000 that was not available until July 1, 1921.)

This review of the functions and the problems of the United States Shipping Board and its subsidiary Corporation has not attempted to go into the many related questions bearing upon the general status of ship operating

under the American flag—such, for example as the much-discussed relative cost of operation; the Edmonds' Bill amending the LaFollette Seamen's Law in the matter of crews on oil-burning vessels, and other labor problems; development of efficient marine organizations here and abroad; revision of tonnage measurements; oil supply; and any detailed discussion of preferential treatment for American ships. Nor has the economic necessity and value of an adequate American merchant fleet been argued.

Here the assumptions are made, justified by the weight of experienced opinion, that a merchant marine capable of carrying fully half of our international trade in competition with the fleets of other countries, is a national requirement and an asset of tremendous tangible and intangible value. And that, weighing the advantages and disadvantages, there are no insuperable obstacles to the success of our fleet in world competition.

For, rising and falling as the underlying economic factors have pointed our attention first to the sea, then to the riches inland, our merchant marine in the century past has measured the extent of our dependence upon foreign trade. "They that go down to the sea in ships, that do business in great waters," they who build up the seafaring spirit of the people, do so because surplus products, surplus efforts, find there the outlet which means individual and national prosperity.

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